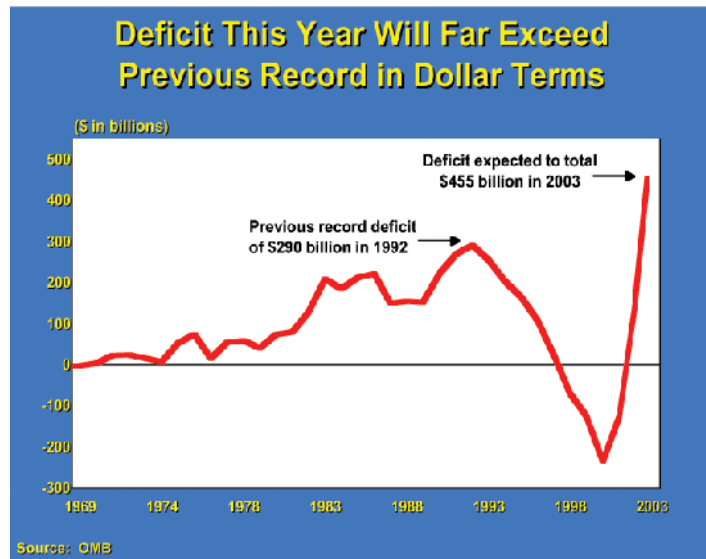


# RESPONSE TO MID-SESSION REVIEW

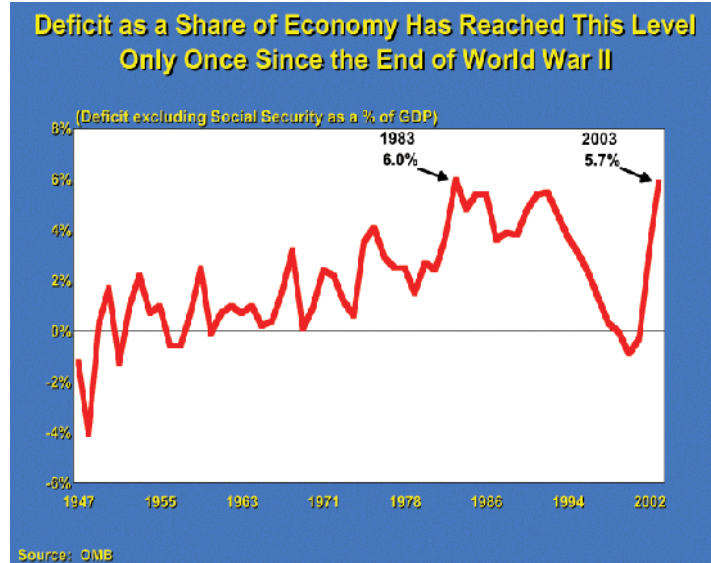
Senator Kent Conrad

Senate Budget Committee Ranking Member

- President Bush told us in 2001 that enactment of his tax cuts would leave the nation with substantial budget surpluses. Last year he told us that the deficits that had reappeared by then would be small and short-lived.
- Now the President's Office of Management and Budget has admitted in the Mid-Session Review of the Budget that last year's \$157 billion total budget deficit will be followed this year by the largest deficit in our history – \$455 billion.

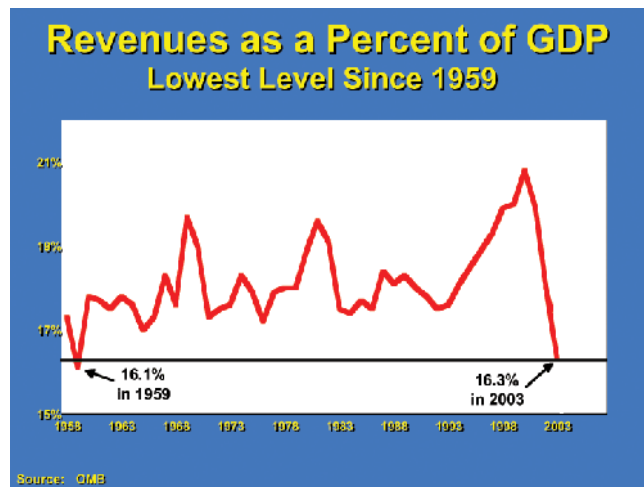


- But the situation is even worse than the \$455 billion deficit indicates. When Social Security is excluded – as is required by law and by common sense – the deficit for 2003 will total \$610 billion.
- Although the administration keeps trying to convince the American public that the deficit “is not large by historical standards,” the fact is that it is very large by any standard. When adjusted for the size of the economy – which the administration claims is the best way to view deficits over time – the non-Social

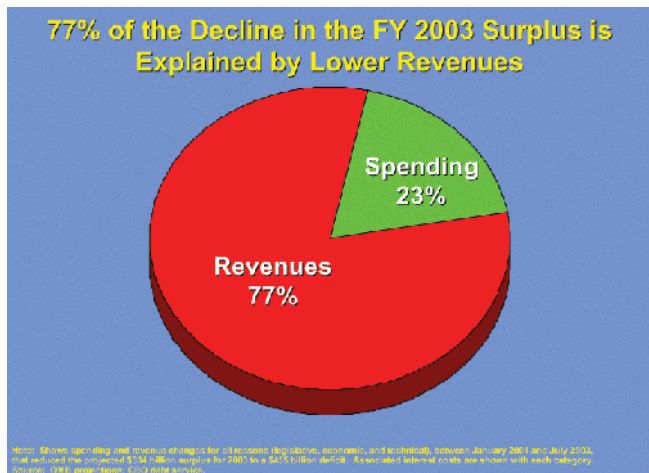


Security deficit expected this year (5.7 percent of gross domestic product) is exceeded only by the deficit in 1983 (6 percent of GDP) in the last 57 years.

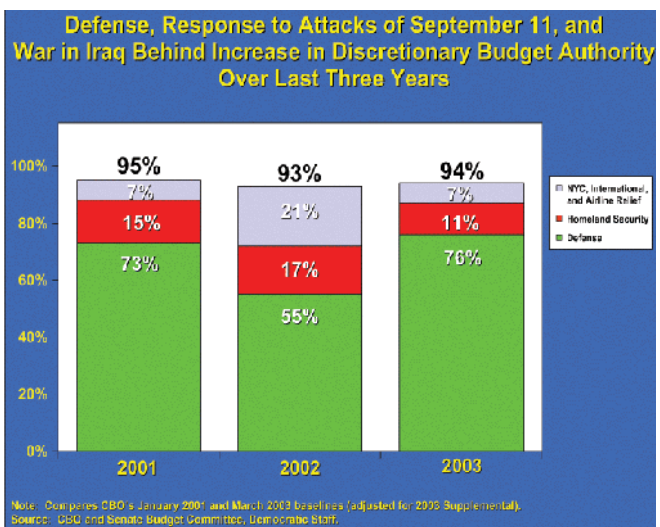
- Despite the administration's attempts to imply that increased spending is primarily responsible for the deficit, it is clear that a precipitous decline in revenues is the overwhelming cause of current and projected deficits.
- According to the Mid-Session Review, revenues in 2003 will equal 16.3 percent of GDP, the lowest level relative to the size of the economy since 1959, when they equaled 16.1 percent of GDP.



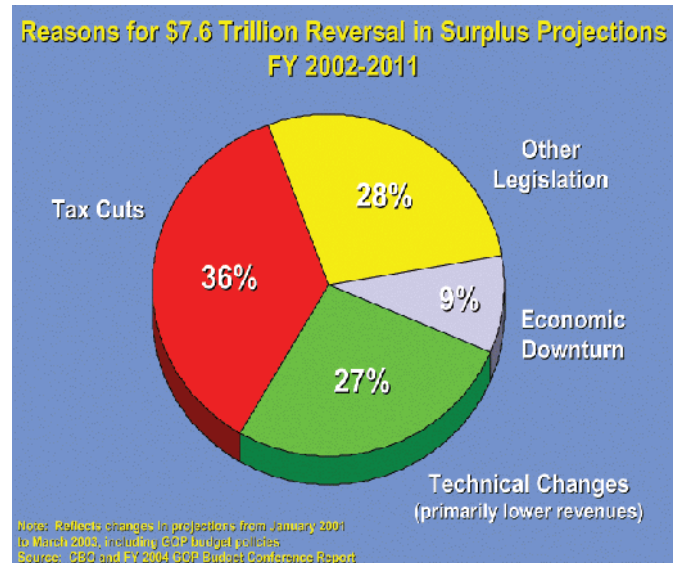
- The estimated total budget deficit of \$455 billion for 2003 represents a downturn of nearly \$800 billion relative to the Bush administration's January 2001 baseline projection of a surplus of \$334 billion in 2003.
- Fully 77 percent of that turnaround is accounted for by a reduction in revenues.



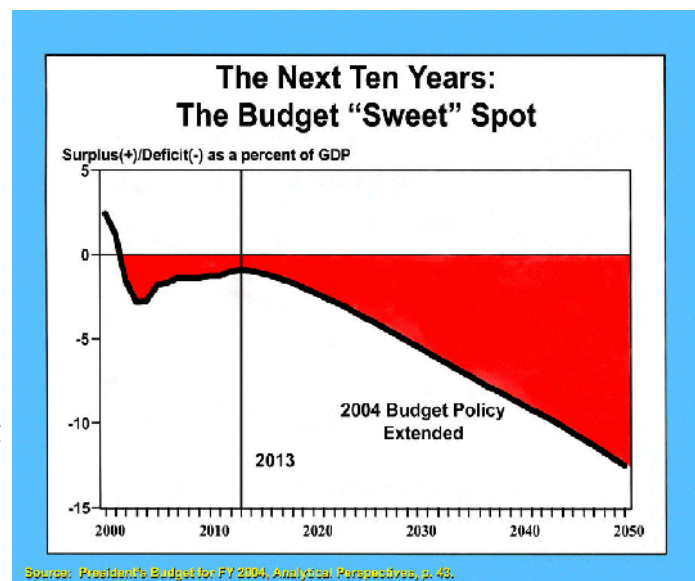
- In addition, the administration tries to leave the impression that the increases in spending that have occurred are the result of profligate spending for social programs.
- The reality is that 94 percent of the increase in discretionary spending for 2003 relative to the baseline amounts projected in January 2001 is accounted for by spending for defense, for homeland security, and for rebuilding in New York and other responses to the September 11 attacks – spending that the President and Congressional Republicans, as well as Democrats, have supported.



- Over the longer-term, the President's tax cuts – both those already enacted and new legislation proposed in this year's budget – are the single biggest reason for the deterioration in the budget outlook.
- Those tax cuts account for 36 percent of the \$7.6 trillion reversal in the budget outlook for fiscal years 2002 through 2011 – from the \$5.6 trillion in total budget surpluses projected in President Bush's first budget to the \$2 trillion deficit that we will have under the President's current policies (as embodied in the Republican budget resolution adopted this year) and CBO's March economic and technical assumptions.



- As troubling as the record deficits expected in the short run and the continuing deficits projected for the next 10 years are, the real crisis is the longer-term effects of the President's policies.
- As shown in a chart included in the President's January 2003 budget, we are currently in a sweet spot that exists before large numbers of baby boomers begin retiring in coming years. According to the administration's estimates, the President's policies will lead to a precipitous increase in deficits when the sweet spot has been passed. But instead of taking advantage of the sweet spot to pay down the federal debt and put the nation's fiscal house in order, President Bush has pushed through tax cuts that produce record deficits and will make it harder to deal with our long-term demographic problem.



\*\*\*

*Senate Budget Committee Democratic Staff  
624 Dirksen, (202)224-0642*